financial services
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The Golden Years?

Be better off in retirement

Imagine you're retiring today. Have you thought about how you're going to financially support yourself, and potentially your family too, with your current pension savings? The run-up to your retirement may feel overwhelming, but this is an important time for you and your savings.

Following the pensions reforms, there are now more options available than ever and this has re-moved the compulsion to purchase an annuity. It also means that you can use your pension fund to benefit your named beneficiaries, whoever they may be.

BASIC RETIREMENT LIFESTYLE

If you are approaching retirement it's time to think about what you're going to do with the money you've been working hard to save all these years. The average UK pension pot after a lifetime of saving stands at £61,897[1]. With current annuity rates, this would buy you an income of only around £3,000 extra per year from age 67, which, added to the maximum State Pension, makes just over £12,000 a year – just enough for a basic retirement lifestyle.

In more recent years, when it's time to take a retirement income, some people are choosing to do so through pension drawdown. Pension drawdown provides a way to establish a flexible income, set at whatever level you choose, which can be increased or decreased over time to match your needs.

FLEXIBILITY AND CONTROL

For many, this may seem a more fitting solution to their retirement needs than purchasing an annu-ity, which is a more established option that typically offers a set monthly income for life. However, although pension drawdown offers flexibility and control, there are differences to consider.

While annuity income is fixed for life, pension drawdown can only continue for as long as you have savings remaining – and once they're gone, you'll receive nothing. So, it's important to receive professional financial advice to ensure that you withdraw your money at a rate that will last your expected lifetime.

WILL YOUR SAVINGS LAST A LIFETIME?

IIt's important to consider that your retirement could last for 30 years or more, depending on when you retire and how long you live. This is why some people use pension drawdown as the option to provide their retirement income. Your savings remain invested even after you retire, which means they have the opportunity to continue growing through investment returns.

But it's impossible to predict exactly how much they will grow each year. Some years they will grow more than others, and some years they may fall in value. If your rate of withdrawal exactly matched your growth rate, your savings could last indefinitely. But, because growth is so hard to predict, this is near impossible to do.

HOW MUCH CAN YOU SAFELY WITHDRAW?

A 4% withdrawal rate is typically stated as a guide for how much you can withdraw each year from your retirement savings. This figure is estimated based on the history of the financial markets and how much investments have tended to grow over periods of around 35 years (the expected dura-tion of retirement for someone who retires in their sixties).

So, if you have £500,000 in savings when you retire, 4% would initially equate to £20,000 a year.

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However, there are a few additional details that mean this figure can't be used totally relia-bly:

- Past performance of the stock markets cannot reliably predict future growth
- The performance of investments in your portfolio may be better or worse than average
- It's impossible to know for sure how long your retirement will last
- Your financial needs are likely to change over time, typically peaking in early retirement and then in later life

CHANGING PENSIONS LANDSCAPE

So, a 4% rate of withdrawal could be either overly cautious, resulting in the accumulation of wealth that could create an Inheritance Tax liability, or overly reckless, resulting in complete depletion of your savings when you still have years left to live.

In this world of ours, very little stands still. The same can be said for the pensions landscape. As high earners are faced with even more restrictions and potential pitfalls, it is vital to understand the rules and seek specialist advice. Start talking to us today about your future retirement plans and we can help you make sure it's a resilient one. ■

BUILDING A BETTER RETIREMENT

If you're approaching or have already turned 55, you might be wondering what is a good pension pot value to aim for. This will naturally depend on your circumstances. To discuss your requirements, please contact us.

Source data:
[1] https://www.fca.org.uk/data/retirement-income-market-data

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUM-STANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR EN-TITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.